An Unholy Union: Multinationals, The Government, and the Recourse Curse in Nigeria

by Zoe Williams — third year honours international relations

Three years after gaining independence from Great Britain in October of 1960, Nigeria proclaimed itself a Federal Republic. From the outset, the Nigerian political theatre was dominated by political conflict underwritten by ethnic tensions,

> "Like most of the boundaries drawn by the colonialist Europeans in the late 19th century, Nigeria's make little sense. They encompass a grab bag of 250 ethnic groups divided by language, culture and religion...Violence is a constant threat as the country's three major ethnic groups – the Yoruba of the southwest, the Hausa-Fulani of the north and the Ibo of the east – struggle for control. The smaller groups, such as those in the delta, scrabble on the fringes for whatever crumbs they can get." (Drohan, 2000; 89-162)

Following the contested results of the 1965 election, a coup was instigated by Igbo (Ibo) military officers from the south-east of the country. It was not until 1999 that allegedly free elections were held and former military ruler Olusegun Obasanjo was elected. Obasanjo has made noted improvements in terms of human rights and freedom of expression. However, his time in office has been plagued with continuous civil unrest and violence, particularly related to the oil industry in the southern states – an area already rife with secessionist ambitions stemming from ethnic and religious differences and past abuse at the hands of the northern dominated government. The elections in April 2007 were condemned by international observers and marred by accusations of corruption and violence. Clearly democracy has a tenuous hold in Nigeria, if it has one at all.

As Muno Ndulo, professor of Law at Cornell University, states, "...Africa's problems are myriad and complex...one particular issue that continues to bedevil African countries is how to establish democratic nation-states with institutions that promote economic development, consolidate political harmony and stability, and avoid conflicts through enfranchisement" (Ndulo, 2003; 315). The underlying problems in Africa, he argues, are poverty and a lack of both good governance and democratic institutions. A solution requires more than just a "Schumpterian democracy," one of relatively free elections. Instead, an environment that can foster democracy must be created because "the challenges cannot be met in conditions of poverty or scarce resources..." (Ndulo, 2003; 364), weak institutions, and conflict. Democracy, Ndulo argues, "...means the freedom of the people in their daily lives to determine their destinies... To a large extent, democracy is less of a formalistic system than an attitude" (Ndulo, 2003; 341). While Nigeria does have some semblance of free elections, it is arguable that a democratic attitude does not prevail. Contributing to this are many of the factors Ndulo addresses, including a legacy of colonialism that has exacerbated ethnic tensions, as well as leaving behind "... undemocratic governments and bureaucracies..." (Ndulo, 2003; 332).

Perhaps equally influential in Nigeria's recent history, however, is the existence of huge oil wealth, which raises the issue of another impediment to democracy – the resource curse. This concept suggests that the more natural resource wealth a country has, the less likely it is to experience economic growth and postulates that the problem of the resource curse is relevant to the study of democracy because it challenges the assumptions of modernization, which link economic growth to social and political development. Since the discovery of oil, Nigeria has become the largest exporter of oil in Africa and the fifth largest in the Organization of Petroleum Exporting Countries (OPEC). While a small minority of Nigerians have grown tremendously wealthy, the majority is increasingly impoverished and Nigeria remains a poor country with great income inequality (2007/08 Human Development Report). The resource curse, in short, postulates that existence of bountiful natural resources in a country is at best a mixed blessing. Slower economic growth, increased civil unrest and conflict, and corruption are merely some of the observed effects of a resource-based economy. Michael Ross, an academic at the University of California in Los Angeles, who postulates that resources "curse" democracy. Most writing on the resource curse focusses on the effect of resource wealth on the government, without accounting for the ways in which natural resource multinational corporations (MNCs) operating within the country also contribute to, or exacerbate the problems attributed to the resource curse. The purpose of this paper is to examine the ways in which the presence of oil undermines the building of democratic institutions in Nigeria, using the resource curse as a framework, but with a primary focus on the impact of multinational corporations. This paper finds that the broad predictions of the resource curse are born out in Nigeria, but, at least when applied to the building of democratic institutions, the behaviour of MNCs is inextricable from this outcome. While neither oil MNCs nor the government are directly preventing allegedly free elections in Nigeria, both, through their actions, contribute to an environment in which truly democratic institutions cannot be built.

The role of multinational corporations in situations where the resource curse is postulated is mentioned by a number of scholars. Nazih Richani's piece describes the war system in Columbia and the role natural resource MNCs play in exacerbating the conflict. He argues that, defying traditional economic logic, extractive multinationals actually benefit financially from operating in zones of conflict (Richani, 205; 114). Although his article addresses these issues in the Columbian context, it can serve as a useful reference point to find examples of MNCs acting in ways that produce a less than optimal situation.

Another author, Michael Watts also points to MNCs as worsening various conflicts in the states in which they operate, and Ross mentions problems involving MNCs and property rights. In states with weakly enforced property rights, MNCs are prone to hiring private security forces, often made up of gangs and rebel militias and "...the presence of resource firms may help these groups form (or enable pre-existing groups to expand) by giving them lucrative opportunities for extortion" (Ross, 2001; 321).

Arguably, the transition to civilian (non-military) rule has not led to significant positive developments in the social or political life in Nigeria. These problems also remain worse in the Niger Delta, as polling indicates. For example, in 2003 only 14 per cent of those who responded to a survey in the Niger Delta said they were satisfied with Nigerian democracy, compared to 35 per cent in the whole country who said they were satisfied (International Crisis Group, 2006). Other statistics further indicate that Nigeria has not progressed towards democracy past staging free elections. The World Bank has consistently ranked Nigeria among the worst countries in terms of rule of law, corruption, violence and political stability, regulatory quality and government effectiveness between 1996 and 2005 (World Bank Country Data Report, 1996-2005).

According to Watts, there exists in Nigeria, a "...repugnant culture of excessive venality and profiteering among the political class..." (Watts, 2004A ;201). Much of this corruption surrounds the oil industry. Nigeria's oil wealth is huge, but "in more than seven years of civil rule, functionaries at the local, state and federal levels have failed to deliver tangible economic benefits for impoverished residents" (International Crisis Group, 2006). Over the last 15 years of military dictatorships, approximately "...\$55 billion in oil revenues has been stolen..." (Oil for nothing, 1999) by the country's leaders. These problems are especially acute in the Niger Delta, where the promises of democracy have failed to materialize, and "...people continue to suffer the negative impacts of oil: violence; environmental degradation; and poverty" (Ibid). This inequitable distribution of oil wealth is caused by a "...radical fiscal centralism, in which revenues directly to Delta states have shrivelled" (Watts, 2004A; 203). In fact, currently the oil producing states receive only 13 per cent of oil revenues, despite the fact that the oil production from these states makes up almost the entirety of the income generated in the nation. The modern northern capital of Abuja indicates to some extent, what oil wealth can achieve in Nigeria. However, according to a 2006 United Nations Development Program (UNDP) report, the Delta states described the Niger Delta's human development situation as 'appalling' and states that the region was unlikely to meet any of the Millennium Development Goal targets...by 2015 'or anytime soon after'" (Human Rights Watch, 2007).

The pervasive influence of oil has also lead to what Watts calls a "crisis of national secular development." Nigeria is an extremely ethnically diverse state, but "...oil led development driven by an unremitting political logic of ethnic claims making, has fragmented and discredited the state and its forms of governance...[and] produced a set of conditions that have compromised and undermined the very tenets of the modern nation state" (Watts, 2004A; 204). The demands of ethnic groups have led to the creation of 36 locally governed areas (LGAs) in Nigeria. However, instead of increased local, equitable and democratic participation, these local governments have added just another level of corrupt officials to Nigeria's political arena (source?). Ethnic rivalries are a primary source of violence in Nigeria, and these LGAs were also meant to go some way towards ameliorating this, but by some accounts "...ethnic competition over resource allocation in the oil-producing areas has persisted or even intensified, as a result of the creation of new states and local government areas" (Frynas, 2001; 34). Furthermore,

> "...the government appears to have aggravated existing disputes and used ethnic factionalism as an excuse for repressive measures by the security forces on a number of occasions..." (Frynas, 2001; 35).

Civil unrest has not decreased with the advent of democratic elections. Militants frequently observe that the government is more willing to negotiate after an embarrassing crisis that has an international component (International Crisis Group, 2006). Criticism seems to be levelled both at the government and the oil companies operating in the Delta. While the government is ineffectual and corrupt, the majority of protests and attacks are aimed directly at the oil companies. The grievances of the people generally fall into three categories – environmental destruction, control of oil revenues, and compensation for land taken over by the companies. The protests come in a variety of forms. Some are peaceful, while others take the form of sabotaging pipelines and kidnapping oil workers. The Ijaw youth uprising in 1998 is representative of interactions between oil companies and protest groups. The youth had issued a declaration that all land and natural resources in Ijaw territory belonged to the Ijaw and demanded a withdrawal of military forces of "...occupation and repression" and further, that any oil company that employed the services of the Nigerian armed forces to protect its operations would be viewed as an enemy of the Ijaw. Peaceful protests by the Ijaw were met with violence by armed forces, and protesters were killed (Human Rights Watch, 1999).

Various communities in the area were attacked by soldiers; a Chevron owned helicopter fired on two villages, while Chevron owned boats carried soldiers into villages where they killed a village leader who was making an attempt to negotiate. In response to these accusations, Chevron "...said they had been told the alleged attack by armed forces was in fact a 'counter attack'" (Ibid). Incidences such as the Ogoni uprisings and the execution of Ken Saro-Wiwa, garner international attention and have been frequent in the years before and after the transition to civilian rule. It is arguable that Nigeria's federal system "...indirectly encourages violence in the Niger Delta by rewarding those who pose the greatest threats...with juicy oil contracts" (International Crisis Group, 2006).

The operations of the oil multinationals and the government in Nigeria exist in a very closely, and perhaps problematically reciprocal, relationship. Some of the world's biggest oil companies operate out of Nigeria, including Shell, Chevron, Agip and Elf, but all must work in conjunction with The Nigerian National Petroleum Company (NNPC). There is a "...six per cent ownership by the government...The companies retain day-to-day operational control of the joint ventures, but the federal government is involved in key decision making..." (Frynas, 2001; 30). However, the relationship is far more extensive than this, and the interwoven interests of the government and the oil companies stretches into many areas of the Nigerian state. One of these is property law. In 1978, the Land Use Act redefined land ownership in Nigeria by declaring all land within a state the property of the state governor.

> "While the Act applied to all landed property, it made explicit references to the oil industry. In particular... that the state governor could revoke a right of occupancy for 'overriding public interests', which included the 'requirement of the land for mining

> purposes or oil pipelines or for any purpose connected therewith'. The Act thus empowered the governor to acquire any private or public land holdings for oil operations… (Ibid).

The result of this law is that the interests of Nigerian citizens are being subordinated to the interests of multinational corporations.

For some time, companies such as Shell and Chevron have on their web-sites maintained pages that document the companies' positive role in Nigerian communities to combat bad press. For example, Shell states that it's Nigerian operation is helping to build "...a major road in Bayelsa state..." and has "...spent a further $32 million on community projects" (Nigeria Sustainability Report, 2005). However, the company information fails to mention that to operate, it "... requires roads for access to oil fields...Most of these roads lead to oil installations, bypassing the local villages...[and] the cost of development projects can be offset against tax, so the oil companies have an economic incentive to inflate the figures for social expenditure" (Frynas, 2001; 48). Furthermore, the projects undertaken by Shell have not been the successes that are claimed by the company (Ibid).

However, even more troubling, there also appears to be a collusion on the part of the Nigerian government and the oil companies to evade bad publicity. For example, during the Abacha administration

> "...a leaked memo reveals that a meeting took place between four senior Shell officials including and the Nigerian High Commissioner in London...and was also attended by representatives of the Nigerian army and police. According to the leaked minutes, the Nigerian High Commissioner 'called on Shell to put heads together with the Mission to effectively debunk all the false allegations peddled against Nigeria and Shell over Ogoni and Ken Saro-Wiwa.'" (Frynas, 2001; 45).

These PR strategies also meant that the government and the oil companies publicly disputed claims made by non-governmental organization and academics regarding oil operations in the Niger Delta (Ibid, 46). This demonstrates a commitment on the part of both the government and the oil companies, not to actually improve their practices in Nigeria, but to effectively hide the negative side of the oil industry and carry on with their business.

Finally, there is a very blurred line between the Nigerian armed forces and police, and the security forces employed by the oil companies. Companies like Shell and Chevron claim that their security measures operate within the bounds of law and respect human rights. Shell does mention that it employs private security forces in some areas, but only out of necessity, because in countries where

> "...the rule of law is weak, protecting employees and assets is not always as straightforward as relying on calling in the State's security forces...Where state security forces do not have sufficient resources a company may where legally permitted be able to choose to engage a private security firm to provide additional manpower and specialist skills" (Shell Sustainability Report, 2005).

Furthermore, there are reported incidences of oil companies supporting the Nigerian armed forces in the violent repression of civilian protests. The aforementioned Ijaw uprising is an example; another is the execution of Ken Saro-Wiwa and the Ogoni Eight, by the state, after their organized protests against Shell. Both Shell and Chevron have also given money and equipment to the Nigerian armed forces. As mentioned above, Chevron boats and helicopters have been used against protesters by the Nigerian army, and "... a secret memorandum revealed that the oil companies provided the infamous Rivers State Internal Security Task Force with financial assistance" (Frynas, 2001; 50). In the same memo, a call was made to put

> "'pressure on oil companies for prompt regular inputs as discussed.' The money was probably used for internal repression since the Task Force was mainly used in the Ogoni area to deal with anti-Shell protests. In the same memorandum, Major Okuntimo wrote:

'Shell operations are still impossible unless ruthless military operations are undertaken for smooth economic activities to commence.'" (Ibid).

There exists a "web of financial relationships linking oil companies with security forces, military groups and armed gangs..." (International Crisis Group, 2006). It appears that the oil companies are unofficially the primary employers, or at least financial backers, of the state police, and these forces serve the interests of the oil companies above those of Nigerian citizens. According to Frynas, the reliance on private security has worsened the violence in the Delta, as peaceful protests have been met with violence from oil company security forces (Frynas, 2001; 51). A Crisis Group report asserts that one explanation for the close relationship between the oil companies and the government is the existence of the joint venture projects with Nigeria's state owned oil company. "Furthermore...the oil companies have much closer ties with the Nigerian administration than with village communities. By implication, it has been more convenient, perhaps, for a manager to summon the police or the military than to engage in negotiations with the local people." (Frynas, 2001; 52).

Not only are the security forces of the oil companies repressive and contribute to the abuses of human rights in the Delta, oil companies knowingly interact with and employ members of militias. As a Nigeria-based official for Shell admitted, "...'it is much less expensive to pay what the militants demand than to go in and repair damaged pipelines or flow stations.' In May 2006, Shell admitted that two companies owned by known militant leaders 'are on the list of approved contractors from the Shell Petroleum Development Company' to carry out pipeline surveillance and waste disposal" (International Crisis Group, 2006).

Nigeria has officially undergone a transition from military to democratic, civilian rule. However, as is indicated above, neither Nigerians themselves nor international monitoring organizations have much faith in Nigerian democracy or institutions. This paper argues that the presence of oil in Nigeria, and the institutions that have grown up around the oil industry, directly contribute to the lack of real democracy in Nigeria. To some extent, the three effects of oil that impede democracy outlined by Ross, are applicable to the Nigerian situation. The first of these is the Rentier effect – the phenomenon of states that derive most of their income from sources external to the state, in this case oil companies (Suburban Energy Management Project). Watts describes the Nigerian political system as solely utilized by individuals for personal gain. "Nigerian political scientist Claude Ake put it well: politics was a ferocious contest to gain access to state monies. The Nigerian public sector became, in this sense, a tool to manufacture a sort of political consent through an unstable and delicate web of pacts and alliances purchased by the distribution of rents..." (Watts, 2004B; 214). This system further exacerbated existing tensions and structures of domination in that "the intersection of centralized (state) oil monies and a highly segmented, and regionalized, class structure...produced a seemingly insatiable source of rents for the privileged, and corruption and fraud of Hobbesian proportions (Watts, 2004B; 215). Because of the centralized nature of the national oil industry, all oil revenues must go through Abuja, and are rarely controlled by local community leadership. Instead, they are pocketed by politicians, or used to buy allies and militias.

The series of military dictatorships has led to an army heavily involved in the political arena. As Ross describes, because the oil is located in an area dominated by an ethnic minority, this has lead to the exacerbation of ethnic conflicts, with heavy involvement by the military.

The repression of civil society groups, often ethnically based, is also evident in Nigeria, as exemplified by the violent attacks on peaceful demonstrations demanding greater control of resources and payment for damaged property. Modernization also has a tenuous hold in Nigeria. While parts of the north are relatively well developed, as stated above, the south of Nigeria remains one of the poorest regions in the world, primarily because of the failure of the state to equitably distribute oil wealth. These three effects all pose a serious threat to the existence of truly democratic institutions.

Richani's description of the financing of the war-system in Columbia bears some similarities to what occurs in Nigeria. As demonstrated above, oil companies' operations both indirectly fuel ethnic tension and directly finance the operations of militias and armed gangs. In Nigeria, Watts states, "the presence, and activities, of oil companies constitute a challenge to customary forms of community authority, inter-ethnic relations, and local state institutions, principally through property disputes..." (Watts, 2004A; 199). The MNCs also perpetrate violence against civilian protesters who demand only reparation for environmental damage and land lost. However, the presence of oil does not necessarily entail these conditions. MNCs could operate according to principles of corporate responsibility. As both Bennett and Muchlinksi discuss, MNCs are often extremely influential in the locations where they operate, sometimes more so than governments, and thus arguably have a responsibility to both ensure their own operations do not create problems and to participate in conflict resolution in problematic areas. The MNCs in Nigeria have, up to the present, done very little to operate according to these standards. Instead, they have, in conjunction with the Nigerian government, created an essentially predatory system in which the MNCs and politicians are the sole benefactors of the oil industry, and the citizens of Nigeria are left with a destroyed traditional economy and poor, conflict-prone communities.

It is this relationship between the government and the MNCs that poses perhaps the biggest threat to democratic institutions in Nigeria. The three examples above — of the land laws, the security forces, and the collusion over public relations — demonstrate the extent to which the state and MNCs collaborate for their mutual benefit in Nigeria. It is important to remember, however, that MNCs are businesses and that they exist to make a profit. Therefore, the extent to which they will behave altruistically, despite movements towards the attitudes embodied in the Voluntary Principles on Security and Human Rights, is minimal. Oil companies in particular often operate in the most politically unstable regions and therefore take extreme measures to remain in operation. The MNCs in Nigeria did not create the ethnic tensions that are the root of so much conflict – these are instead, largely the result of colonialism and the decisions of subsequent Nigerian leaders. While it has been demonstrated that the operations of MNCs greatly exacerbate these pre-existing problems, ideally the government would act as a check on potentially destructive behaviour of MNCs, as well as establishe a system of equitable distribution of power and oil revenues to various ethnic communities to minimize potential for conflict. In Nigeria, what is problematic is that the power of the MNCs is comparable to that of the government, and this is where the resource curse further contributes to an understanding of the situation. As the resource curse describes, because of the primacy of the oil industry, and the huge profits embodied therein, all other industry, from agriculture to manufacturing has been stunted in Nigeria. Thus, the oil industry has undue influence on the government, and the state is transformed into an apparatus whose primary purpose is the accumulation and distribution of oil rents and the repression of civilian organizations that might hinder the operations of the oil companies. When these are the primary functions of the state, and when it is dominated by the same profit-seeking attitudes as the MNCs themselves, there is little incentive to move towards establishing truly democratic institutions or attitudes.

It is precisely this democratic attitude, albeit embodied in a constitution, that Ndulo states is necessary for democracy to take a strong hold in African countries. This certainly applies to Nigeria. Good governance will further human rights and create a real democracy that includes the right to take part in government, to vote and be elected, and to equal access to public services (Ndulo, 2003; 334). However, real democracy cannot be created in situations of conflict, poverty and "...where ... the allocation of society's resources favours and benefits the dominant faction" (Ndulo, 2003; 325). One solution that Ndulo calls for is the devolution of power to local governments. This would mean ceding to the demands of various ethnic minority groups for greater local control of oil revenues. It would involve lessening the power of the central government in Abuja and would require that the oil companies work to build better relationships with the communities in which they operate as opposed to corrupt officials in the capital. Ultimately what all this requires however, is a democratic attitude in place of the profit-seeking mentality that currently dominates the Nigerian political system.

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